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UNCLAS SECTION 01 OF 02 KINGSTON 000893

SIPDIS

SENSITIVE

STATE FOR WHA/CAR/ (WBENT), WHA/EPSC (JSLATTERY)

SANTO DOMINGO FOR FCS AND FAS

TREASURY FOR L LAMONICA

E.O. 12958: NA

TAGS: [ECON](#) [EFIN](#) [JM](#)

SUBJECT: DISCOVERY OF FINANCE MINISTRY'S ISSUES ILLEGAL LOAN GUARANTEES EMBARRASSES PM-HOPEFUL

REF: 03 KINGSTON 3056

¶1. (U) Summary: The Jamaican Ministry of Finance (MOF) used deferred financing to support development projects without going to Parliament for approval. Following an amendment to the Financial Administration Act (FAA) in 2002, the MOF modified their "comfort letters" to financial institutions, turning them into loan guarantees on behalf of government agencies and not subject to Parliamentary review. Parliament recently discovered the illegal practice, which has increased GOJ debt obligations by more than JD 19 billion (USD 300 million). In hearings before Parliament, MOF officials admitted that they knowingly broke the law, though other representatives of the MOF told emboff that the situation was not as serious as Parliament believes. Some in the MOF believe that the timing of these revelations is politically motivated. End Summary.

¶2. (U) On March 22, representatives of the Ministry of Finance (MOF) faced a special sitting of the Public Accounts Committee (PAC) of Parliament and admitted that the MOF has been acting in violation of the Financial Administration and Audit since 1992. The testimony centered on the MOF's issuance of so-called "comfort letters", which assured creditors that the GOJ would repay loans should the borrower default. These letters served as de-facto loan guarantees, and have increased the GOJ's debt obligations by at least JD 19 billion (USD 300 million).

¶3. (U) The MOF has traditionally used deferred financing (reftel) to support a variety of build-now, pay-later development projects. However, growing concern about the debt crisis and the burden such practices were placing on the budget led Parliament, in 2002, to amend the FAA, requiring that future deferred financing projects be brought to Parliament for approval.

¶4. (U) According to March 22 testimony, the MOF responded to the amended legislation by largely abandoning the practice of deferred financing, shifting its focus instead to letters of undertaking (LOU). A common practice since 1992, these documents initially served as "comfort letters", reassuring lenders that the GOJ had confidence in a borrower's ability to pay. Over time, however, the wording changed to the point where the MOF was, in practice, promising to pay the full value of the loan in the event that the borrower defaulted. The issuance of such letters is not subject to legislative review, and Auditor General Adrian Strachan reports that MOF issuance of such documents significantly increased following the amendment of the FAA.

¶5. (U) Robert Martin, MOF Senior Deputy Financial Secretary (DFS), admitted to Parliament's PAC on March 22 that the MOF had known that the process of providing de-facto guarantees to financial institutions was illegal. Their stated rationale was to reduce the MOF's financial constraints and expand its capacity to fund development projects.

¶6. (U) The PAC is concerned that the obligations made through the outstanding LOUs may significantly worsen the GOJ's debt position, and has demanded that the MOF provide a full accounting of all comfort letters, promissory notes and similar instruments. Early indications are that at least JD 19.6 billion (USD 320 million) was offered by 13 government entities to commercial banks via LOUs. The largest single recipient of the illegally guaranteed funds was the Development Bank of Jamaica, which secured JD 4.2 billion in loans.

¶7. (SBU) Senior XXXXXXXXXXXX of the Ministry of Finance XXXXXXXXXXXX told emboff on March 24 that it was unfortunate that DFS Martin and Rowe had to explain something they had nothing to do with. He said the

grilling from the PAC had put so much pressure on Martin in particular that he had become obviously stressed out. This has been complicated by the scramble to get additional information for the next sitting of the PAC. XXXXXXXXXXXX said that the outstanding LOUs were not much more than JD 19.6 billion and it would not affect the budget unless the entities did not make good on their obligations. XXXXXXXXXXXX also reiterated the difficulty these "off the book" expenditures had on planning. He said the current development brings Finance Minister Omar Davies' management and leadership into question, a clear swipe at the latter's ambition to become the next Prime Minister.

TIGHE